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SEC



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COMMISSION

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

OMB APPROVAL  
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SEC FILE NUMBER

8-52752

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING JANUARY 1 2003 AND ENDING DECEMBER 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

FEDERAL STREET INVESTMENTS, INC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

800 CUMMINGS PARK 355W  
(No. and Street)

BEVERLY  
(City)

MASSACHUSETTS  
(state)

01905  
(zip Code)

**OFFICIAL USE ONLY**

FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

ROGER BLUNDELL

(978) 921-0055  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Karll, Harvey CPA, P.C.  
(NAME- IF INDIVIDUAL STATE LAST, FIRST, MIDDLE NAME)

(Address)

41 Middle Street

(City)

Newburyport

(State)

MA 01950-2755

(ZIP Code)

CHECK ONE:

☒ XX Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

**PROCESSED**

**MAR 03 2004**

**THOMSON  
FINANCIAL**

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\*Claims -for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid control number

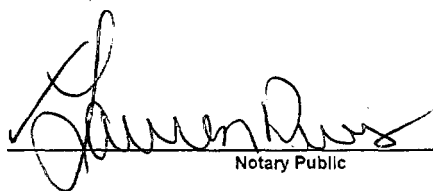
## OATH OR AFFIRMATION

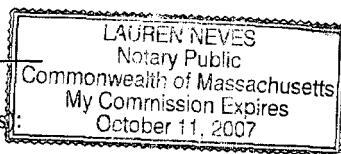
I, ROGER BLUNDELL  
swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FEDERAL STREET INVESTMENTS, INC., as of DECEMBER 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principle officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

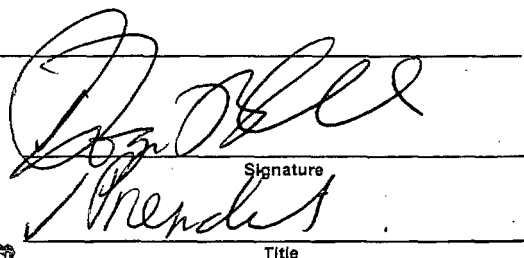
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\_\_\_\_\_

  
Notary Public



  
Signature  
Title

This report\*\* contains (check all applicable boxes):

- X (a) Facing page.
- X (b) Statement of Financial Condition.
- X (c) Statement of Income (Loss).
- X (d) Statement of Changes in Financial Condition.
- X (e) Statement of Changes in Stockholders' Equity, or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims, of Creditors.
- X (g) Computation of Net Capital
- X (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- X (i) Information Relating to the Possession or control Requirements under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- X (K) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- X (l) An Oath or Affirmation
- (m) A copy of the SIPC Supplemental Report.
- X (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions, of this filing, see section 240.17d-5(e)(3).



## Harvey E. Karll CPA, P.C.

41 Middle Street  
Newburyport, Massachusetts 01950  
(978) 465-9512 Fax (978) 462-9043

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL REQUIRED BY SECTION 17A-5

To the Board of Directors  
Federal Street Investments, Inc.

I have examined the financial statements of Federal Street Investments, Inc. for the year ended December 31, 2003 and have issued my report thereon dated February 11, 2004. As part of my examination, I made a study and evaluation of the Company's system of internal accounting control, which includes the procedures for safeguarding securities, to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of my study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

I also made a study of the practices and procedures followed by the Company in making periodic computations of aggregate indebtedness and net capital under rule 17a-3(a) (11) and the procedures for determining compliance with the exemptive provisions of rule 15c-13 or (ii) in Section 4(c) of regulation T of the board of governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining a system of internal accounting control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the objectives of the SEC described in rule 17a-5(g). The objectives of a system of practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with

management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5 (g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitation in any system of internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. Also, projection or any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

My study and evaluation made for the limited purposes described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of Pacvest Associates, Inc. taken as a whole. However, my study and evaluation disclosed no condition that I believed to be a material weakness.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the commission to be adequate for its purposes in accordance with the SEC Act of 1934 and related regulations, and the practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequate for such purposes. Based on this understanding and on my study, I believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the commission's objectives. In addition, no facts came to my attention that would indicate that conditions of the exemption for rule 15c-3-3 had not been complied with during the period.

This report is intended solely for the use of management and the SEC and should not be used for any other purpose.

February 11, 2004

*John Hull CPA P.C.*

Federal Street Investments, Inc..

Audited Financial Statements

The Year Ended December 31, 2003

CONTENTS

INDEX

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|                                                  | Page |
|--------------------------------------------------|------|
| Auditor's Report .....                           | 1    |
| Balance Sheet .....                              | 2-3  |
| Statement of Income .....                        | 4-5  |
| Statement of Cash Flows .....                    | 6    |
| Statement of Retained Earnings .....             | 7    |
| Statement of Changes in Stockholders Equity..... | 8    |
| Notes to Financial Statements .....              | 9    |
| Statement of Net Capital.....                    | 10   |



## Harvey E. Karll CPA, P.C.

41 Middle Street  
Newburyport, Massachusetts 01950  
(978) 465-9512 Fax (978) 462-9043

February 12, 2004

Federal Street Investments  
176 Federal Street 3rd Floor  
Boston, MA 02110

To the Stockholders:

I have audited the accompanying Balance Sheet of Federal Street Investments, Inc. as of December 31, 2003, and the related Statements of Income, Retained Earnings, Stockholder's Equity and Cash Flows for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with generally accepted auditing standards. These standards require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Street Investments, Inc. as of December 31, 2003 and the results of its operations and cash flows for the year ended December 31, 2003, in conformity with generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Federal Street Investments, Inc. are presented for the purpose of additional analysis and are not required as part of the basic financial statements, but are supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

*Harvey E. Karll CPA, P.C.*

**Federal Street Investments, Inc**  
**Balance Sheet**  
December 31, 2003

**Assets**

|                             |           |                   |
|-----------------------------|-----------|-------------------|
| <i>Current Assets</i>       |           |                   |
| Cash in Bank                | \$        | 335.51            |
| Clearing Deposits           |           | 25,000.00         |
| Commissions Receivable      |           | 19,622.29         |
|                             |           | <hr/>             |
| <b>Total Current Assets</b> | <b>\$</b> | <b>44,957.80</b>  |
| <br><i>Fixed Assets</i>     |           |                   |
| Computers                   | \$        | 4,222.50          |
| Accum Depre-Computers       | (         | 3,842.00)         |
|                             |           | <hr/>             |
|                             |           | 380.50            |
| Office Equipment            |           | 36,655.51         |
| Accum Depre-Office Equip    | (         | 16,504.00)        |
|                             |           | <hr/>             |
|                             |           | 20,151.51         |
|                             |           | <hr/>             |
| <b>Total Fixed Assets</b>   |           | <b>20,532.01</b>  |
| <br><i>Other Assets</i>     |           |                   |
| Due from D. Rossignol       |           | 41,888.89         |
| Due from R. Blundell        |           | 65,135.12         |
|                             |           | <hr/>             |
| <b>Total Other Assets</b>   |           | <b>107,024.01</b> |
|                             |           | <hr/>             |
| <b>Total Assets</b>         | <b>\$</b> | <b>172,513.82</b> |
|                             |           | <hr/> <hr/>       |

See Accountant's Audit Report



Federal Street Investments, Inc  
Balance Sheet  
December 31, 2003

Liabilities & Equity

Liabilities

*Current Liabilities*

|                    |    |          |
|--------------------|----|----------|
| Amex Payable       | \$ | 3,307.13 |
| Commission Dispute |    | 5,500.00 |
| Accrued Expenses   |    | 2,420.00 |

|                     |    |           |
|---------------------|----|-----------|
| Total Current Liab. | \$ | 11,227.13 |
|---------------------|----|-----------|

*Long Term Liabilities*

|                       |  |      |
|-----------------------|--|------|
| Total Long Term Liab. |  | 0.00 |
|-----------------------|--|------|

|                   |  |           |
|-------------------|--|-----------|
| Total Liabilities |  | 11,227.13 |
|-------------------|--|-----------|

Equity

|                          |   |            |
|--------------------------|---|------------|
| Common Stock             |   | 27,000.00  |
| Paid in Capital          |   | 104,685.00 |
| Retained Earnings        |   | 23,221.76  |
| Current Earnings         |   | 17,597.40  |
| Shareholder Distribution | ( | 11,217.47) |

|              |  |            |
|--------------|--|------------|
| Total Equity |  | 161,286.69 |
|--------------|--|------------|

|                            |    |            |
|----------------------------|----|------------|
| Total Liabilities & Equity | \$ | 172,513.82 |
|----------------------------|----|------------|

See Accountant's Audit Report

Federal Street Investments, Inc  
Income Statement  
Twelve Months Ended December 31, 2003

|                                                                | Year To Date        | %            |
|----------------------------------------------------------------|---------------------|--------------|
| <b>Income</b>                                                  |                     |              |
| Commissions Income                                             | \$ 371,017.71       | 100.0        |
| <b>Total Income</b>                                            | <u>371,017.71</u>   | <u>100.0</u> |
| <b>Selling &amp; Administrative Exp.</b><br>( See Schedule A ) | 351,617.41          | 94.8         |
| <b>Net Income/ (Loss)</b><br><b>From Operations</b>            | 19,400.30           | 5.2          |
| <b>Other Income</b>                                            |                     |              |
| Interest Income                                                | 21.10               | 0.0          |
| <b>Total Other Income</b>                                      | <u>21.10</u>        | <u>0.0</u>   |
| <b>Net Income/ (Loss)</b><br><b>Before Taxes</b>               | 19,421.40           | 5.2          |
| <b>Provision for Income Tax</b>                                |                     |              |
| Provision for FIT                                              | 1,367.00            | 0.4          |
| Provision for SIT                                              | 457.00              | 0.1          |
| <b>Total Provision for</b><br><b>Income Taxes</b>              | <u>1,824.00</u>     | <u>0.5</u>   |
| <b>Net Income ( Loss )</b>                                     | <u>\$ 17,597.40</u> | <u>4.7</u>   |

See Accountant's Audit Report

**Federal Street Investments, Inc**  
**Income Statement**  
Twelve Months Ended December 31, 2003

|                                          | Year To Date         | %           |
|------------------------------------------|----------------------|-------------|
| <b>General &amp; Administrative Exp.</b> |                      |             |
| <b>( Schedule A )</b>                    |                      |             |
| Salaries - Office                        | \$ 24,702.32         | 6.7         |
| Automobile Expense                       | 4,790.55             | 1.3         |
| Fidelity Bond                            | 886.98               | 0.2         |
| Consulting Expense                       | 54,025.00            | 14.6        |
| Bank Charges                             | 1,007.50             | 0.3         |
| Broker Commissions                       | 98,139.30            | 26.5        |
| Clearing Cost                            | 36,192.63            | 9.8         |
| Depreciation                             | 5,815.00             | 1.6         |
| Dues & Subscriptions                     | 8,674.08             | 2.3         |
| Equipment Rental                         | 2,038.65             | 0.5         |
| Education Expense                        | 568.00               | 0.2         |
| Employee Benefits                        | 7,447.83             | 2.0         |
| Errors                                   | ( 530.08)            | -0.1        |
| Meals                                    | 2,444.30             | 0.7         |
| Market Data                              | 955.95               | 0.3         |
| Office Expenses                          | 4,046.97             | 1.1         |
| Postage & Delivery                       | 2,627.60             | 0.7         |
| Professional Fees                        | 21,408.76            | 5.8         |
| Payroll Services                         | 1,710.88             | 0.5         |
| Rent                                     | 43,380.08            | 11.7        |
| Recruiting                               | 1,000.00             | 0.3         |
| Repairs                                  | 1,234.74             | 0.3         |
| Regulatory Expenses                      | 11,135.17            | 3.0         |
| Medical                                  | 1,274.29             | 0.3         |
| Taxes Payroll                            | ( 1,688.39)          | -0.5        |
| Taxes Others                             | 125.00               | 0.0         |
| Telephone                                | 17,522.81            | 4.7         |
| Travel                                   | 234.02               | 0.1         |
| Utilities                                | 447.47               | 0.1         |
| <b>Total G &amp; A Expense</b>           | <b>\$ 351,617.41</b> | <b>94.8</b> |

See Accountant's Audit Report

Federal Street Investments, Inc  
Statement of Cash Flows  
Twelve Months Ended December 31, 2003

Year To Date

Cash Provided from Operations

|                          |              |
|--------------------------|--------------|
| Net Income ( Loss )      | \$ 17,597.40 |
| Adjustments              |              |
| Add:                     |              |
| Depreciation             | 5,815.00     |
| Commissions Receivable   | 1,000.34     |
| Loans Receivable         | 15,100.00    |
| Prepaid Registration Fee | 681.17       |
| Commission Dispute       | 5,500.00     |
| Accrued Expenses         | 2,420.00     |
| Less:                    |              |
| Due from D. Rossignol    | ( 17,667.26) |
| Amex Payable             | ( 5,042.87)  |
| Accrued Commissions      | ( 7,037.24)  |
| Payroll Tax Liabilities  | ( 10,509.46) |

Cash from Operations

7,857.08

Cash Flows - Invested

Investing Cash Flows

0.00

Cash Flows - Financing

Shareholder Distribution ( 11,217.47)

Financing Cash Flows

( 11,217.47)

Cash Increase (Decrease)

( 3,360.39)

Cash - Beginning of Year

|                 |          |
|-----------------|----------|
| Cash - Checking | 3,520.64 |
| Cash - Savings  | 175.26   |

Total Beginning of Year

3,695.90

Cash on Statement Date

\$ 335.51

See Accountant's Audit Report

Federal Street Investments, Inc.  
Statement of Retained Earnings  
December 31, 2003

|                             |                             |
|-----------------------------|-----------------------------|
| Beginning Retained Earnings | (\$ 23,221.76)              |
| Net Income (Loss)           | <u>17,597.40</u>            |
| Ending Retained Earnings    | <u>\$ 5,624.36</u><br>===== |

(See Accountant's Audit Report)

Federal Street Investments, Inc.  
Statement of Changes in Stockholder's Equity  
December 31, 2003

|                   |            |
|-------------------|------------|
| Beginning Balance | \$ 131,685 |
|-------------------|------------|

|                |                     |
|----------------|---------------------|
| Ending Balance | \$ 131,685<br>===== |
|----------------|---------------------|

(See Accountant's Audit Report)

Federal Street Investments, Inc.  
Notes to Financial Statements  
December 31, 2003

1. Nature of Business

The company is in the business of selling and trading securities.

2. Summary of Significant Accounting Policies

The Company is a registered broker-dealer. All trades are cleared on a fully disclosed basis.

3. Capital Requirements

Pursuant to the Securities and Exchange Commission Uniform Net Capital Rule, the Company is required to maintain minimum net capital (\$ 5000), as defined under Rule 15c3-1. At December 31, 2003 the Company had net capital of \$ 33,731.

4. Basis of Accounting

The Company has adopted the accrual method for financial reporting and cash method for income tax reporting.

5. Litigation

The Company has two arbitration cases with the NASD. One is a commission dispute with a former broker. The other case involves a former customer. Company management believes that neither of these cases would materially affect the company's financial position if there is an adverse decision. A provision for the commission dispute has been made for \$5500, the amount of commissions being disputed.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

7. Advertising

The company's policy is to expense the cost of advertising as it is incurred.

(See Accountant's Audit Report)

Federal Street Investments, Inc  
Computation of Net Capital  
December 31, 2003

|                                                    |                  |
|----------------------------------------------------|------------------|
| Net Worth                                          | \$ 161,287       |
| Less: Non Allowable Assets                         | <u>127,556</u>   |
| Net Capital                                        | 33,731           |
| Less: Capital Requirement                          | <u>5000</u>      |
| Excess Capital                                     | <u>\$ 28,731</u> |
| Aggregate Indebtedness                             | <u>\$ 11,227</u> |
| Ration of Aggregate Indebtedness to<br>Net Capital | .3 to 1.0        |

Reconciliation of Computation of Net Capital

|                                             |                  |
|---------------------------------------------|------------------|
| Net Capital - As reported in Part IIA Focus | \$ 31,610        |
| Net Audit Adjustments                       | <u>2,121</u>     |
| Net Capital, As Above                       | <u>\$ 33,731</u> |

(See Accountant's Audit Report)